



**Mayor Chuck Reed's
2013 State of the City Address
February 7, 2013**

Good evening. Welcome everyone.

Carl, thank you for the generous introduction and thank you for your collaboration with San Jose on so many issues like increasing air service, Christmas in The Park, Tour of California, US Patent and Trademark Office, pension reform, transportation funding, Talent Partnership, and getting us a seat on the MTC.

Keri and Brian, thanks for showcasing the great work of our honorees and for your valuable work in the community.

Congratulations to all of our honorees this evening – the community volunteers and city employees who were just recognized. Thank you for everything you do to make San Jose a great place to live, work and raise a family. Let's give them another round of applause.

Pastor Dace, thanks for the invocation and your inspirational leadership with the Mayor's Gang Prevention Task Force and the Reentry program.

To my Council colleagues, thank you for your service to our city in extremely difficult times and your good humor and professionalism, even when the decisions were hard.

To all of the other elected officials out in the audience, thank you for your service. Please stand and be recognized.

To our business organizations – like the San Jose Silicon Valley Chamber of Commerce, the Hispanic Chamber of Commerce, Santa Clara County Association of Realtors, TriCounty Apartment Association, San Jose Downtown Association and the Silicon Valley Leadership Group – thank you for your support of our fiscal reforms, and your advocacy for economic development.

I also want to recognize my wife, Paula, and my sister, Sandy, who are with us tonight. Paula, thank you for your love and support. Thanks for being my wing mate for 44 years.

And to the people of San Jose, thank you for your faith and support during six very difficult years. There's not another big city in America where the residents have done more to help solve a fiscal crisis.

You approved ballot measures to raise revenues for critical city services. You approved measures V and W to allow sustainable pensions to new city workers and to reform binding arbitration. And you voted for pension reform, overwhelmingly, with nearly 70 percent voting yes on Measure B last June.

You told us not to mortgage your children's future, and then turn around and take out a second and third mortgage against your grandchildren's future. You told us to take action to solve our fiscal problems and protect services, and we did.

Despite threats of political retribution, personal vilification and well funded opposition, a majority of the City Council courageously voted to make the changes necessary to save our city from insolvency. Political courage is rare among elected officials, but you were exceptional.

You stood up for our residents and taxpayers. You saved our city. Your political courage will long be remembered. As President Teddy Roosevelt said:

"It is only through labor and painful effort, by grim energy and resolute courage that we move on to better things."

And we would not be moving on to better things without great professional staff work.

Our City Auditor, Sharon Erickson, and her staff did a great job of identifying the problems and solutions in their reports. Our City Manager Debra Figone, our City Attorney Rick Doyle, our senior staff and managers, and our labor negotiators, led by Alex Gurza, implemented the Council's directions. These dedicated public servants worked tirelessly and bravely, leading by example, and always being professional.

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Tonight is my seventh State of the City address. In the first six, I spent a lot of time talking about the budget and San Jose's fiscal problems. Some of you were at my first speech when I called the structural budget deficit Public Enemy Number One.

I'd love to tell you that I'm not going to talk about the budget tonight – wouldn't that be a pleasant change! But the budget is still our biggest challenge. We have come a long way, but we still have a lot of work to do.

To understand how far we have come and the hard work ahead of us, we need to take a look back.

Following the dot-com bust, San Jose experienced ten straight years of budget shortfalls. We closed yearly deficits by cutting services and eliminating jobs. Over a ten year period, we eliminated 2,000 positions from the city payroll. We cut library hours, closed community centers, delayed road repairs, deferred maintenance, and laid off fire fighters and police officers. But it wasn't enough.

Even when the economy rebounded and our revenues went up, it wasn't enough, because our cost of doing business was going up even faster, primarily driven by skyrocketing costs for pensions and retiree healthcare. In just ten years, retirement costs increased from \$73 million to \$245 million a year.

Faced with these fundamental, structural problems and realizing that continuing to cut services would push us into insolvency, with bankruptcy likely to follow, the City Council

rose to the challenge and adopted the Fiscal Reform Plan to achieve two equally important objectives:

- One: Make sure city employees and retirees get paid the retirement benefits they have earned and accrued, and
- Two: Provide essential services to our residents and taxpayers.

The elements of the Plan we have already implemented are saving us over \$100 million dollars a year. As a result, this year we were able to balance the budget with no layoffs and begin to restore services, like opening four branch libraries that have been vacant and locked. Seven Trees opened in January. Bascom will open in two weeks. Education Park and Calabazas will follow soon.

We are grateful that things are getting better, but we still have a lot to worry about. Our retirement plans still have about \$3 billion in unfunded liabilities and the independent Retirement Boards' actuaries have projected our annual required payments will continue to increase for more than a decade.

This is a billion dollar problem and it requires a billion dollar solution. That's why we have to stay the course and implement the rest of the Fiscal Reform Plan.

We are going to make sure that our retirees get paid what they have earned and accrued, and we are going to restore police and fire services, re-open libraries and community centers, and repair our roads.

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While our Fiscal Reform Plan has averted disaster and put us on the path to recovery, I want to acknowledge that it has had real and painful consequences, especially for our hardworking city employees.

Many of these painful decisions were made in agreements with our employee unions, with the knowledge that if everyone sacrificed, jobs and services would be saved.

There are many city employees here tonight. You've taken significant pay cuts. You've incurred increases in your share of retirement costs. Yet, you have served the public with care and professionalism. Thank you for your sacrifices.

While pay cuts and pension reforms were necessary to save hundreds of jobs and preserve services, they have resulted in resignations and a loss of good people in some areas.

Other cities and the State of California are making similar changes. Government employees are taking pay cuts and paying more for retirement benefits all over the state.

The market place is catching up with San Jose, but we still need to mitigate some of the impacts that fiscal actions have had on our employees.

We can take some steps this year to help us retain experienced and talented staff:

- We can begin to reward innovation, superior performance and experience, starting with critical and hard-to-fill positions.
- We will implement the provisions of Measure B that give all of our employees an opportunity to choose a lower cost set of pension benefits for future years of service. Our request for a ruling from the IRS is pending, and we are pushing aggressively to be able to give our employees a choice.
- And with continued cooperation from our unions, we will slow down the increase in the amounts our employees pay for retiree healthcare.

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Innovation, creativity, collaboration, hard work, and overtime have helped close some of the gaps created by service cuts, but the reality is, San Jose is understaffed in many areas.

Nowhere is this more apparent than in our police department.

We have a great department with some of the best officers in the country, but 10 years of spiraling costs have left the department understaffed and reduced its ability to respond to, investigate, and prevent crimes.

It's important to note that in the decade before the Fiscal Reform Plan we didn't cut the police department budget. We actually increased it by nearly \$100 million. But during that time, the cost per officer increased dramatically, driven by rising retirement costs. So even with a budget increase of nearly \$100 million, we have fewer officers than we had ten years ago.

Thankfully, our police officers agreed to take a 10% cut in total compensation, so we didn't have to cut 150 more positions in the department.

This understaffing is even more troublesome because the state has reduced its prison population by more than 40,000 inmates in the last five years. There is little doubt that some of those former prisoners are committing crimes again, impacting our neighborhoods and further stretching police resources. I want to thank Santa Clara County for collaborating with the city on an innovative Re-entry program to work on this problem.

Of course, this isn't just a San Jose problem. Across the region and across the state, property crimes are up. Like us, San Francisco and Oakland saw spikes in homicides last year.

That's interesting information for statisticians and the media, but the only crime rate that matters to me is what's happening here in San Jose.

We must not and we will not accept higher crime rates as the new normal. We will not write off any neighborhood. What we will do is restore capacity in our police department so we can better respond to crime.

My priority for the coming year will be public safety. As we begin to realize more savings from Measure B and see new revenues from the Fiscal Reform Plan, we will hire more police officers.

Unfortunately, we're not going to have the resources to immediately increase the size of our police department very much, and we can't afford to restore the 10% pay cuts immediately without cutting services.

But there are some things we can do this year to retain officers and improve capacity in the department.

- We can improve retention of experienced officers with retention bonuses and targeted pay increases, within our financial ability to do so.
- We can return officers to the street. The City Auditor has identified positions that could be civilianized, like doing background checks, which would free up officers for patrol and investigations. Non-sworn Community Service Officers could follow up on burglaries. Reserve Officers could be allowed to do a lot more.
- We will continue to recruit and hire aggressively. More than a dozen direct hires are in the field training program, another 40 recruits are in the academy, and hundreds of applicants are in the process for the next academies.
- And we have to be more efficient and adopt the best practices of other big city police departments by using data to more effectively deploy officers.

Some have suggested that we restore the full 10 percent cut in compensation to encourage experienced officers to stay. I wish we could do that today. But it would cost about \$20 million a year, meaning we would have to shrink the force by more than 100 officers or cut other services dramatically.

No one thinks it's a good idea to shrink our already-too-small force. We need to hire more officers to patrol our neighborhoods and solve and prevent crimes – and that's where we will put savings generated by the Measure B pension reforms.

To be more precise, with the savings from pension reform, we can expand the force by 200 more police officers.

You are probably wondering “When will we get those savings?” Despite the numerous attempts to block Measure B with law suits, administrative actions and arbitration, we will get significant savings over the next two years that will allow us to grow the force.

Of course, we also need to restore many other services that were cut over the last decade.

- Response times in our fire department have slowed.
- We have far fewer community centers than we once did.
- Our branch libraries are only open four days a week.
- The streets in our neighborhoods have too many potholes.
- And we have a street maintenance backlog of over \$300 million.

All of our departments need increased funding both to improve service levels and to retain top quality workers. However, pension reform alone will not generate enough savings to cover all of our needs.

One option is going to the voters to ask for new revenues, and the Fiscal Reform Plan includes the possibility of a tax increase in addition to the savings from pension reform. The voters have approved four tax measures since I’ve been Mayor, and we greatly appreciate their support. It appears from our most recent survey that a majority of the voters might support another tax increase.

After we fully implement Measure B and can assure the voters that new tax revenues will go to improving services, then we will be much more likely to get approval for new revenues.

We could go to the voters for a tax increase in 2014, but success cannot be assumed. I challenge all of you who want a tax increase to put together a broad coalition of support with the capacity and commitment to raise a million dollars. That’s what it will take to win.

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Despite all the challenges, disruptions and difficulties, our workforce continues to do a great job for the people of San Jose. Drawing on the innovation that is the hallmark of Silicon Valley, many city employees turned crisis into opportunity and found ways to be more efficient and do more with less. For example:

- The Fire Department now uses two-person squad cars instead of four-person trucks to respond to some medical emergency calls.
- Our Parks, Recreation and Neighborhood Services Department has partnered with nonprofits to keep community centers open.
- Our libraries have been a national leader in using technology to increase circulation at costs far lower than other cities.
- And our new model for graffiti cleanup is saving money and delivering better service through technology, like the SanJoseClean app that allows residents to report graffiti with a photo and get a confirmation after the clean up.

Partnerships and relationships that we built with other government agencies and non-profit organizations have been a great help to us during these times of short staffing. As we now begin to restore services, we will continue finding creative ways to be more efficient and effective in delivering services to our residents and taxpayers.

Wide ranging collaborations will ensure that San Jose continues to make significant progress in areas like:

- closing the educational achievement gap through the SJ2020 initiative,
- reducing gang violence and keeping our schools safe through our Mayor's Gang Prevention Task Force,
- ending chronic homelessness through Destination Home,
- reducing the overrepresentation of Latinos in the criminal justice system through the La Raza Roundtable / Harvard consensus building process, and
- harnessing the power of innovation by creating the Silicon Valley Talent Partnership.

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We've also worked hard to capture economic growth – and we're seeing great results. Silicon Valley companies are once again leading the state and the nation out of recession.

Last month, the Milken Institute released its annual "Best Performing Cities Index" which identifies the cities that are the best at creating and sustaining economic growth. The San Jose metro area was ranked number 1.

Here are a few of the companies that have invested and created jobs in San Jose through our expedited permit processes.

To our business community, from our large corporations to our sole proprietors, thank you for the jobs and investments you've brought to our community. We appreciate the confidence you have in San Jose, and as your Mayor, I am committed to helping your companies stay here and grow here by working at the speed of business.

Private sector projects already under construction will generate nearly \$ 10 million in new tax revenues once they are completed. And we have more than a billion dollars of investments, moving through our permitting process which will create thousands of jobs, and generate another \$10 million in annual tax revenues.

I want to acknowledge and thank the many members of city departments, especially the Development Services Team, who have been working at the speed of business to make each of these projects successful.

And thanks goes to Governor Brown and his GoBiz office for working with us on projects like the world R&D headquarters for Samsung Semiconductor. Thank you, Charlie Bae and your team, for growing here.

Even more companies will stay here and grow here if the legislature follows the Governor's lead and streamlines the California Environmental Quality Act.

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Another area where we're seeing a big impact is in clean technology. In 2007, we launched our Green Vision, which is our road map to becoming the world's center of clean tech innovation to create jobs and improve the environment.

Today, San Jose metro is ranked number 1 for clean tech innovation, and we have over 7000 clean tech jobs.

San Jose now has more solar power on homes and commercial and government buildings than any other city in the state. California leads the country in megawatts installed and San Jose leads California.

And we are making progress on replacing our ugly yellow street lights with new LEDs that will save energy, reduce maintenance and enhance safety in our neighborhoods.

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In the year ahead, dozens of driving industry companies are going to be looking to expand into larger buildings. If your company is one of those, call me 408-535-4800. I want to help. San Jose is ready to work at the speed of business to help you stay here and grow here.

That's critical to ensuring that Silicon Valley remains a driving force in our national and global economies. Our region is home to the most successful tech companies in the world.

- That's why BART to San Jose is under construction
- That's why the US Patent and Trade Mark Office will open a Silicon Valley branch.
- That's why Lew Wolff wants to build us a baseball stadium and a soccer stadium. Thanks Lew.
- That's why Virgin America will soon be flying out San Jose. Thank you, David Cush, CEO of Virgin America. I love your service, and I fly coach.

Talented people from across the globe come here for the opportunity to compete and collaborate with other world-class innovators, and that's why San Jose is the top patent filing city in the country.

We need to make sure these talented people have the opportunity to stay here, invest here, and grow their companies here. I'll continue to support the efforts of the Silicon Valley Leadership Group and our members of Congress to make that possible through Immigration Reform.

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San Jose is a place where people from all over the world focus on what we have in common rather than our differences, where people from different ethnicities, religions and cultures live, work, play and prosper together.

San Jose is a beacon of peace and prosperity for the world. Our economic outlook is strong and opportunities abound.

Now it's up to us to stay the course to solve our fiscal problems, to remain mindful of what got us into the mess in the first place, and to keep our eyes on the long-term goal – a future in which we are fiscally strong and can afford to open all of our libraries and community centers full time, repair our streets, end the fire company brownouts, and restore capacity in our police department.

We have made the hard decisions and taken the difficult steps to solve problems so they don't burden future generations. But we could not have done so without the strong and continuous support of the people of San Jose.

Our residents, taxpayers and voters have been tremendous allies in solving our problems. For that I can't thank you enough, and I want each of you to know that I am deeply honored to be your Mayor and enormously proud of you and our City.

With your help we put San Jose back on the path to be a great city. Together, we will keep moving forward, toward a brighter future.